

## Message Text

CONFIDENTIAL

PAGE 01 BONN 11747 01 OF 03 121748Z

46

ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 PRS-01 PA-01 AGR-05 ITC-01

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 0357

INFO AMEMBASSY LONDON

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C O N F I D E N T I A L SECTION 01 OF 03 BONN 11747

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A

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PAGE 02 BONN 11747 01 OF 03 121748Z

TAGS: EFIN, GW

SUBJECT: GNP FORECASTS AND THE RECORD TO DATE

SUMMARY: SEPARATE FORECASTS FROM THREE ECONOMIC RESEARCH INSTITUTES FORECAST 6 PERCENT REAL GNP GROWTH -- ABOUT THE SAME AS THE FRG FORESEES. IN THE CASE OF ONE INSTITUTE THE 6 PERCENT IS REACHED BY AN UPWARD ROUNDING. THE FIRST HALF SO FAR APPEARS TO HAVE NOT QUITE REACHED 6 PERCENT IN YEAR-OVER-YEAR TERMS, ACCORDING TO THE BUNDESBANK. A SECOND HALF SLOWDOWN FROM THE RATE OF THE FIRST HALF SEEMS LIKELY, WHICH SHEDS SOME DOUBT ABOUT THE ACHIEVABILITY OF SOME OF THE HIGHER FORECASTS.END SUMMARY

1. THREE GERMAN INSTITUTES HAVE COME OUT WITH SEPARATE GNP FORECASTS FOR 1976 IN THE PAST FEW DAYS, BUT ALL HAVE THE SAME BOTTOM LINE: 6 PERCENT REAL GROWTH. THIS ALSO IS THE ORDER OF MAGNITUDE OF GROWTH THAT THE FRG FORESEES. COMPARING THE GNP COMPONENT DEVELOPMENTS, THERE IS A LITTLE VARIATION BETWEEN THE VARIOUS FORECASTS, BUT NOT MUCH. TWO ENTITIES SEE PRIVATE CONSUMPTION AS GROWING BY 3.5 PERCENT, AND THE OTHER TWO BY 4.0 PERCENT. ON FIXED INVESTMENT THE VIEWS ARE CLOSE, WITH REAL INCREASES OF BETWEEN 5 TO 6 PERCENT BEING THE RANGE OF THE FORECASTS. THE INVENTORY ACCUMULATION PREDICTED BY THE THREE INSTITUTES IS IDENTICAL, WITH THE GOVERNMENT BEING marginally higher. WHILE SLIGHTLY VARYING RATES OF GROWTH IN IMPORTS AND EXPORTS ARE ASSUMED BY THE FOUR FORECASTING ENTITIES, THE NET FOREIGN BALANCES ARE NOT FAR APART, THE RANGE BEING DM 9.6 - 11.5BILLION. THIS IS BELOW THE 1975 RECORDED LEVEL OF DM 12.3 BILLION (1962 PRICE TERMS). SEE TABLE I FOR DETAILS.

2. ONLY IFO PRESENTED THE DATA ON A SEMI-ANNUAL (NON-SEASONALLY ADJUSTED) BASIS AS WELL, WHICH WE INCLUDE AS TABLE II, PROVIDING YEAR-OVER-YEAR GROWTH RATES. THE MOST INTERESTING ASPECTS OF THIS ARE THE UNEVEN DEVELOPMENTS FORESEEN FOR INVESTMENT AND INVENTORY CHANGES. THE RATE OF INCREASE IN INVESTMENT IN MACHINERY AND EQUIPMENT IS PREDICTED TO DROP FROM 13 PERCENT IN THE FIRST HALF TO 3.5 PERCENT IN THE SECOND HALF. THIS  
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PAGE 03 BONN 11747 01 OF 03 121748Z

REFLECTS THE EXPIRATION OF THE EFFECT OF THE GOVERNMENT'S INVESTMENT BONUS STIMULUS AS WELL AS HIGHER BASE IN THE SECOND HALF OF 1975. AND IN THE CASE OF STOCKS, PRACTICALLY ALL THE BOOST TO GNP THAT INVENTORY ACCUMULATION WILL PROVIDE COMES IN THE FIRST HALF, UNDERLINING THE TEMPORARY NATURE FORECAST FOR THIS ELEMENT IN THE UPTURN.H WHILE ALL OTHER GNP COMPONENT GROWTH RATES ARE MORE OR LESS BALANCED IN BOTH HALVES,

THE SECOND HALF GROWTH RATE DROPS TO 5.5 PERCENT FROM  
THE FIRST HALF 6.0 PERCENT RATE. THIS YIELDS 5.74  
PERCENT GROWTH RATE FOR THE YEAR, WHICH WAS ROUNDED UP  
TO 6 PERCENT BY THE INSTITUTE IN ITS FORECAST OF THE  
ANNUAL RATE. THE SECOND HALF SLOWDOWN IS FURTHER  
EVIDENCED IN THE IFO ESTIMATE THAT IN SEASONALLY ADJUSTED

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PAGE 01 BONN 11747 02 OF 03 121755Z

46

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FM AMEMBASSY BONN

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INFO AMEMBASSY LONDON

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C O N F I D E N T I A L SECTION 02 OF 03 BONN 11747

ANNUAL RATE TERMS WILL BE 2 - 3 PERCENT AS COMPARED TO  
8 PERCENT IN THE FIRST HALF. (USE OF THESE FIGURES  
LEADS TO AN ANNUAL GROWTH OF 5.6 PERCENT IN 1975 --  
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PAGE 02 BONN 11747 02 OF 03 121755Z

PERHAPS ANOTHER INDICATION OF THE SOLIDITY WITH WHICH  
THE 6 PERCENT SHOULD BE REGARDED.) THE IFO FORECASTING  
DEPARTMENT CHIEF TOLD US HE WAS VERY UNSURE OF SECOND  
HALF DEVELOPMENTS. HE SAID THAT THEIR READING OF  
BUSINESS ATTITUDES AS WELL AS THE POOR STATISTICAL  
QUALITY OF THE DATA RECEIVED FROM THE FEDERAL STATISTICAL  
OFFICE CONTRIBUTE TO THIS UNCERTAINTY.

3. FOR A COMPARISON OF THE FORECASTED DEVELOPMENT WITH  
WHAT HAS HAPPENED SO FAR, WE HAVE INCLUDED IN TABLE I  
THE ACTUAL FIRST QUARTER GNP PERFORMANCE AS CALCULATED  
BY THE BERLIN INSTITUTE (WHICH DOES NOT INCORPORATE A  
DOWNWARD ADJUSTMENT FOR THE FACT THAT THERE WERE MORE  
WORKING DAYS THIS YEAR.) IN THIS IT WILL BE SEEN THAT  
STOCK BUILDING WAS THE MAJOR FACTOR IN THE FIRST QUARTER  
5.2 PERCENT YEAR-OVER-YEAR GROWTH RECORDED. THE SWING  
IN INVENTORY LEVELS IN FACT ACCOUNTED FOR HALF THE YEAR-  
OVER-YEAR GROWTH GNP GROWTH. ANOTHER POINT OF INTEREST  
IS THAT PRIVATE CONSUMPTION GROWTH IS SOMEWHAT BELOW  
THE RATE FORECASTED FOR THE YEAR AS A WHOLE. WE WERE  
TOLD BY THE PRINCIPAL FORECASTER AT THE KIEL INSTITUTE  
THAT THE SECOND QUARTER PRIVATE CONSUMPTION PERFORMANCE  
LOOKS NO BETTER THAN THAT OF THE FIRST QUARTER. IF THIS  
TURNS OUT TO BE IN PART TRUE, THERE WILL HAVE TO BE A  
RAPID SECOND HALF ACCELERATION IN THIS COMPONENT IF THE  
FORECASTED ANNUAL GROWTH IS TO BE ACHIEVED, HE SAID.

4. THE KIEL INSTITUTE IS ONE OF THE FEW WHO HAVE  
PUBLISHED WHAT THEY SEE FOR 1977 ECONOMIC DEVELOPMENTS,  
AND WE INCLUDE THEIR GNP PROGNOSTICATIONS AS TABLE III.  
THEY TOLD US THAT THEIR INITIAL CALCULATIONS LED TO A  
LOWER GROWTH RATE IN 1977 THAN THE 6 PERCENT FORECASTED  
1976 LEVEL. AS THIS DID NOT SIT WELL, THEY JUGGLED THE  
COMPONENTS -- MAINLY INVENTORY CHARGES -- TO BRING THE  
1977 RATE UP TO 6 PERCENT. ALSO, ALL THE 1977 COMPONENT  
GROWTH RATES HAD TO BE HIGHER THAN IN 1976 TO ACHIEVE  
THIS BECAUSE OF THE LESSER "SWING" IN THE INVENTORY  
CHANGE FIGURE FOR 1977. IT IS A BIG QUESTION WHETHER  
SUCH AN ACROSS-THE-BOARD INCREASE IN RATES IN THE SECOND  
TO THIRD YEAR OF THE RECOVERY WILL BE POSSIBLE.

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PAGE 03 BONN 11747 02 OF 03 121755Z

6. KARL KLASSEN, THE BUNDESBANK PRESIDENT, RECENTLY STATED THAT THE FIRST HALF YEAR-OVER-YEAR REAL GNP GROWTH WAS 5.5 PERCENT, OR ONE HALF POINT BELOW THE IFO FORECAST CITED ABOVE. GIVEN THE GENERALLY FORECASTED SLOWDOWN IN SECOND HALF GROWTH (BOTH IN SEASONALLY ADJUSTED AND YEAR-OVER-YEAR TERMS), IT BEGINS TO LOOK RATHER DIFFICULT FOR 6.5 PERCENT GROWTH RATE THAT THE BUNDESBANK FORECASTED WILL BE ACHIEVED.

7. TABLES DETAILING THE FOREGOING DATA FOLLOW:

TABLE I

1976 YEAR-OVER-YEAR GNP GROWTH RATES  
CONSTANT (1962) PRICES

	FORECASTS			ACTUAL		
	DIW	IFO	KIEL	FRG 1/	1ST QTR.	
	1976	1976	1976	1976	1976 2/	
PRIV CONSUMPTION	3.5	4.0	3.5	4.0	2.8	
PUB CONSUMPTION	2.0	1.0	2.0	2.0	2.7	
FIXED INVESTMENT	5.5	5.1	6.2	5.0	4.1	
MACH & EQUIP	9.0	8.0	10.0	7.5	9.7	
CONSTRUCTION	2.0	2.0	2.0	2.5	-2.8	
INVENTORY CHG						
(DM BILLION)	(11.0)	(11.0)	(11.0)	(12.3)	(7.3)	
NET FOREIGN BAL						
(DM BILLION)	(11.5)	(11.5)	(9.6)	(10.6)	(4.1)	
EXPORTS	11.5	10.0	9.5	10.0	11.3	
IMPORTS	12.5	11.0	11.5	11.5	13.5	
GNP	6.0	6.0	6.0	6.0	5.2	

CONFIDENTIAL

NNN

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PAGE 01 BONN 11747 03 OF 03 121753Z

46

ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 EA-07 AID-05 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

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C O N F I D E N T I A L SECTION 03 OF 03 BONN 11747

TABLE II

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PAGE 02 BONN 11747 03 OF 03 121753Z

1976 YEAR-OVER-YEAR GNP GROWTH RATES

CONSTANT (1962) PRICES

AS FORECASTED BY IFO

LST HALF YEAR 2ND HALF YEAR

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PRIVATE CONSUMPTION	4	4
PUBLIC CONSUMPTION	1.5	1
INV. IN MACH & EQUIPMENT	13	3.5
INV. IN CONSTRUCTION	0	4
INVENTORY CHG (DM BIL)	(10)	(1)
NET FORN BAL (DM BIL)	(6)	(5.5)
EXPORTS	9.5	10.5
IMPORTS	11	11
GNP	6	5.5

TABLE III

## 1977 YEAR-OVER-YEAR GNP GROWTH RATES

CONSTANT (1962) PRICES

AS FORECASTED BY KIEL

(PERCENT)

PRIVATE CONSUMPTION	4
PUBLIC CONSUMPTION	2.5
INVESTMENT IN MACH & EQUIPMENT	12
INVESTMENT IN CONSTRUCTION	6
INVENTORY CHANGE (DM BIL)	16
EXPORTS	10
IMPORTS	10
GNP	6

1/ MAY 11 INTER-MINISTERIAL (PLUS BUNDESBANK)

CONSENSUS FORECAST; WHERE RANGES STATED (E.G., GNP 5.8  
TO 6.2 PERCENT), MEDIAN POINT USED. SEE BONN 8203 FOR  
DETAILS.

2/ ACCORDING TO "URSPRUNGSWERTE" OF DIW.HILLENBRAND  
HILLENBRAND

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